Social and Environmental Integrity of a FVA - certification of sustainable development impacts

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Social and environmental integrity of a FVA

- certification of sustainable development impacts

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Outline

- Environmental and social integrity
- Sustainable development objectives and assessment
- The 'CDM SD tool' – approved at EB70, Doha
- Towards certification of emission reduction SD impacts traded under a FVA

Environmental and social integrity

Environmental integrity – what is it?

- FVA: - all such approaches must meet standards that deliver: 'real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of GHG emissions' (Draft decision/CP.18)
- When linking domestic ETS with different design features *environmental integrity* is about the following:
  - the nature and stringency of ER targets and caps (relative or absolute, ambition)
  - the definition and recognition of trading units (CCS, nuclear sinks etc.)
  - provisions for banking and borrowing
  - MRV (confidence)
  - compliance regime (penalties, price cap, safety valves)
- Tension: Environmental vs economic effectiveness

(Source: Sterk & Schüle, 2009)

The social integrity of units under a FVA

- The social integrity (wholeness) of trading in ER units depends on mitigation activities' sustainable development impacts, i.e. SD benefits, the handling of risks of negative impacts and stakeholder involvement to enhance credibility and transparency of actions
- A NMM must contribute to SD (Decision 1/CP.16) and the SBSTA work programme shall consider the promotion of SD as an element of a NMM (Draft decision/CP.18, paragraph 51)
- There is no text on various approaches relation to SD

Sustainable development assessment

Comparison of SD objectives across policy frameworks

Framework	SD objectives
CDM	Assist non-Annex I countries with the achievement of sustainable development
LCDS	A low-carbon development strategy is indispensable to SD
NAMAs	NAMAs shall contribute to SD
REDD+	Non-carbon benefits or co-benefits of REDD+ activities is the terminology for positive SD impacts benefitting local communities and indigenous people
NMM	A possible element of the NMM is to promote SD
FVA	There are no decisions, nor guidance on the framework's relationship to SD

- All other policy frameworks consider SD, except a FVA.
- The purpose of the framework is not yet defined.

Challenges to assess the CDM's SD contribution

- In the absence of an international acceptable definition of SD, the benefits cannot be known, nor monitored and are not monetized in the carbon market, except for voluntary standards like the GS & CCB.

- Two main findings of a literature review (Olsen 2005) on how the CDM contributes to SD are that: 1) Left to the market forces the CDM does not significantly contribute to SD. 2) No methodology exists at global level to assess the total contribution of all CDM projects to SD.

- Challenge: An international standard for SD co-benefit indicators can enable that monitoring and reporting takes place to inform the global carbon market with the aim of directing investments towards maximising the SD benefits.

Experience from CDM sustainability assessment

Approach	Strength	Weakness
Checklist	• Simple • Country specific	• Transparency of DNA's assessment not always ideal • Little incentive by DNAs to enforce strict SD contribution and control as it adds administration and transaction costs • Only PDDs are assessed prior to registration, actual impacts are not monitored nor verified
Tax	• Simple to implement	• SD benefits are indirect, i.e. detached from the CDM project activity
Certification	• High standard for SD contribution • SD benefits internalized into the prize of credits	• Demanding in terms of data, monitoring and verification • High transaction costs

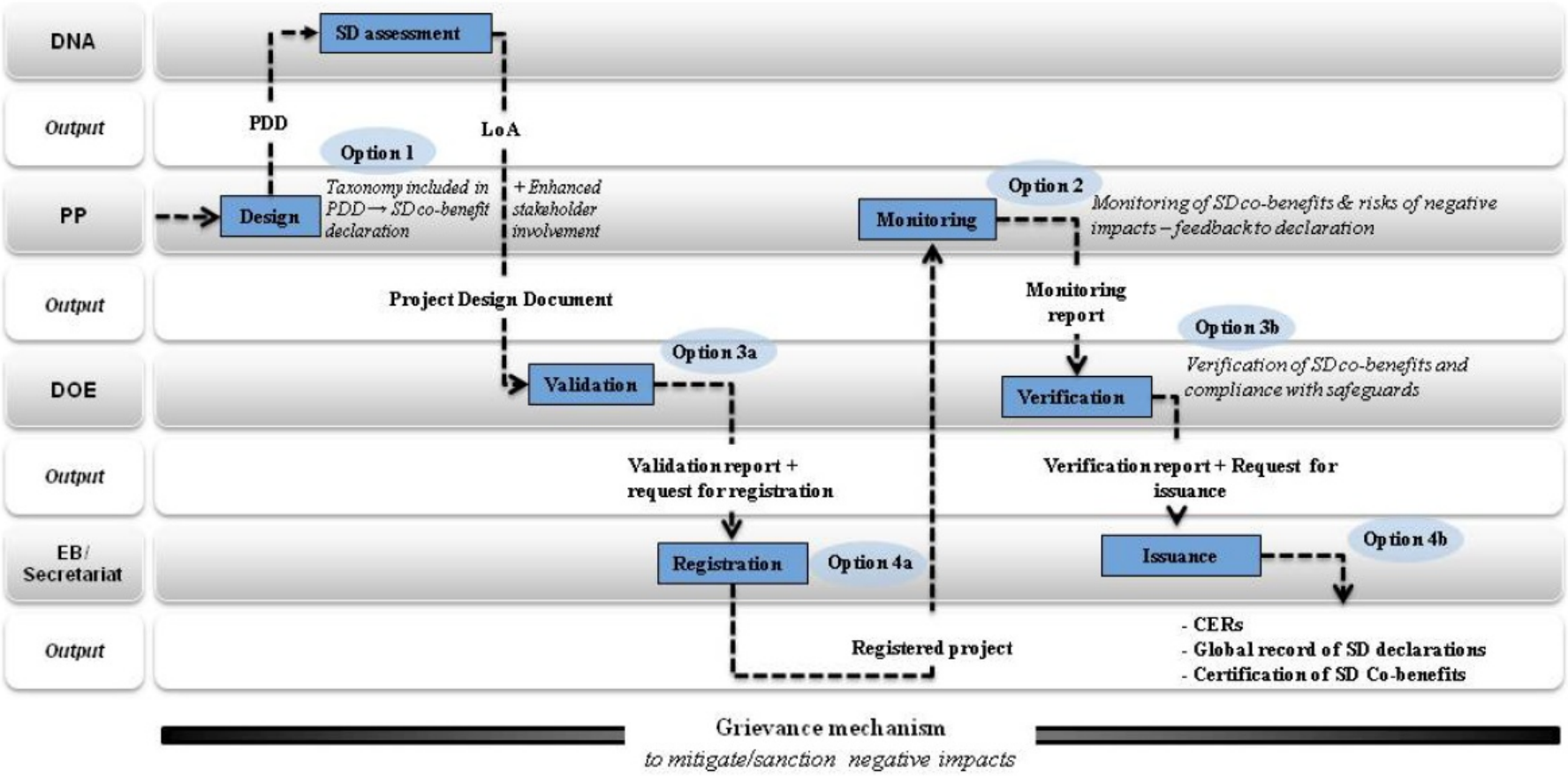
The CDM SD tool

CDM Executive Board response to SD assessment

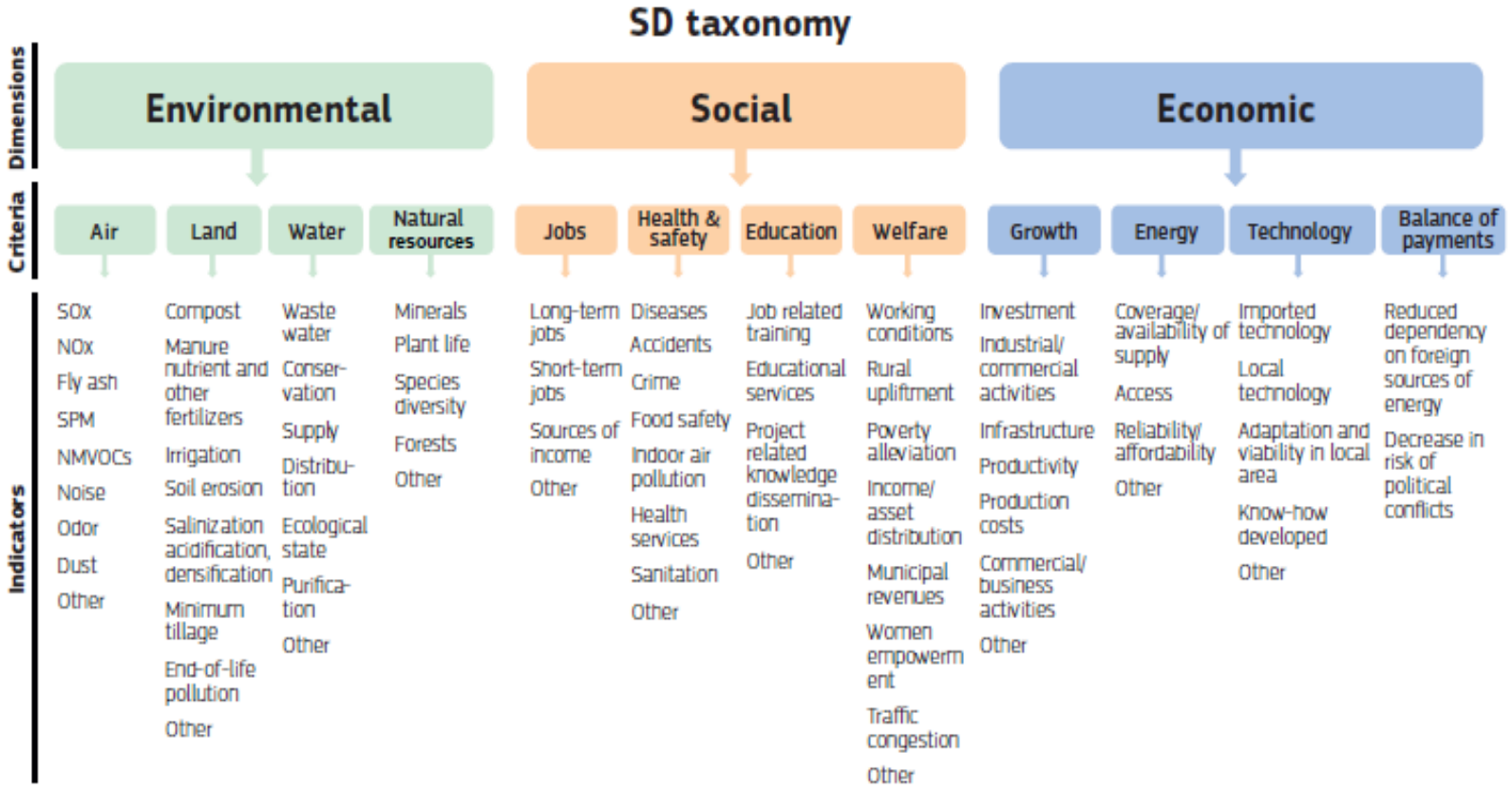
- The Board launched at its 61st meeting a Call for public inputs on sustainable development co-benefits and negative impacts of CDM project activities (See EB65 Annex 17 for a summary of submissions).
- At CMP.7 (decision 8/CMP.7), the Parties requested the Board to "continue its work and develop appropriate voluntary measures to highlight the co-benefits brought about by clean development mechanism project activities and programmes of activities, while maintaining the prerogative of Parties to define their sustainable development criteria".
- At EB67, the Board considered a concept note on highlighting sustainable development co-benefits on a voluntary basis (EB67 Annex 13) – see slide
- At EB68 the Board considered a draft SD tool based on an integrated approach to three elements: 1) SD co-benefits, 2) No harm Safeguards and 3) Stakeholder involvement.
- At EB69 the Board requested the Secretariat to only include positive SD benefits in the SD tool, i.e. to exclude negative impacts & stakeholder involvement
- At EB70 the SD Tool was approved!

UNEP Risø was contracted to develop the SD tool with the Secretariat.

Design options for SD tool – discussed up to EB67



CDM sustainability assessment



Online SD tool – EB70 draft: https://www.research.net/s/SD_tool_vers7

Online SD tool – example: air quality

6. **Does the activity improve air quality in the area?**

The activity improves air quality by reducing air pollutants such as SOx (sulphur oxides), NOx (nitrous oxides), Suspended Particulate Matter (SPM) emissions, Non Methane Volatile Organic Compounds (NMVOCs), fly ash, noise, odour or dust.
Reductions in greenhouse gasses are not included, as this defines all CDM projects.
Avoided indoor smoke is identified can be declared under "Social health and safety" section.

- ☐ Yes (and I wish to specify)
- ☐ No (the activity has no direct impact)
- ☐ N/A (the question is not relevant)

Environment – Air – specific indicators

7. **How and to what extent does the activity improve air quality in the area?**

Reducing level/frequency/time of SOx (sulphur oxides) emissions?	☐ Highly	☐ Partly	☐ Slightly	☐ N/A
Please specify				
Reducing level/frequency/time of NOx (nitrous oxides) emissions?	☐ Highly	☐ Partly	☐ Slightly	☐ N/A
Please specify				
Reducing level/frequency/time of fly ash emissions?	☐ Highly	☐ Partly	☐ Slightly	☐ N/A
Please specify				

SD declaration report – air benefits

A. Environmental co-benefits

Water and land co-benefits were declared as N/A, which means the criteria are not relevant to the project.

The programme of activities improves air quality in the area through:

Criteria	Indicators	Specification	Extent
Air	SOx	limited	Slight
	NOx	limited	Slight
	Fly ash	limited	Slight
	Suspended Particulate Matter (SPM)	limited	Slight
	Noise	substituting diesel generators	Partly
	Odours	substituting kerosene lamps	Partly
	Dust	limited, but some dust from wood waste will be reduced	Slightly
	Other air based improvements	Indoor air improved as no kerosene and paraffin lamps	Partly

The extent of the environmental co-benefits:

Shortcomings/scope for improvements

Shortcomings:

- The tool is voluntary
- The SD benefits are not monitored, nor verified
- Risks of negative impacts are not included
- Only PPs and CMEs can report on SD benefits, local and global stakeholders are not heard

Scope for improvement: - CDM Policy Dialogue Recommendations

- Report, monitor and verify SD impacts throughout the project lifetime
- SD declaration required at the time of registration and issuance on how a projects assists the host country to achieve SD in a manner that allows for comparison across projects
- Enhance safeguards against negative SD impacts
- Enable host countries to withdraw its LoA in case of harmful SD impacts
- Provide capacity building to enable DNAs to perform the above functions

Towards certification of SD impacts of FVA units

Towards SD assessment of mitigation actions

- *Development benefits* beyond GHG reductions are the driving force for most host countries' mitigation actions, including possible units to be traded under a NMM or FVA

- New approaches and more robust data collection methods are needed for the assessment of SD impacts – CDM experience is a good starting point for integrating with domestic M&E frameworks to enable mainstreaming into national MRV

Finding the right balance between flexibility and standardization to enable a high level of social and environmental integrity for SD is a challenge

SD benefits in NAMAs submitted to the registry

NAMA	Environmental	Social	Economical	Institutional	Transformational
Chile: Implementation of a National Forestry and Climate Change Strategy *(support for implementation)*	Forest management Biodiversity Afforestation Restoration of natural forests Generation of environmental assets	Gender equality	Economic alternative for owners of degraded land Access to participate in the forestry business and in carbon markets	Improvements in land titling processes Sub-national reference levels and MRV systems to include indicators related to adaptation Platform for the Generation and Trading of Forest Carbon Credits Social and environmental safeguards are fully considered	
Uruguay: First introduction of Photovoltaic Solar Energy in the national electrical grid *(support for implementation)*		Testing laboratories Training professionals	Strengthen the assembly and maintenance of the national solar network	Conditions for holding a competitive process for the incorporation of new plants by private companies Capacity building support in the regulator organism and the Public Electric Utility Technical regulatory framework for this resource	Goal to have at least 50% of the national energy supply mix based on renewable sources At least 90% of the electrical grid supported by renewable sources

An integrated approach to SD assessment of mitigation actions

Action/Project cycles	NAMAs	CDM
National Development Planning	Low Carbon Development Strategy (LCDS) **Identify SD objectives to which NAMAs contribute**	-
Design of action/project	No format requirements **Include indicators/metrics for SD benefits in the design format and conduct stakeholder involvement and safeguards for no-harm-done**	Project Design Document (PDD)
National Approval	Officially Designated Entity (ODE) submit NAMAs to Registry: seek support for preparation, seek support for implementation or for recognition (unilateral)	Designated National Authority (DNA) issues Letter of Approval (LoA) for SD contribution
Validation/Registration	-	Designated Operational Entity (DOE) and Executive Board (EB)/ Registry
Financing	Supported NAMAs: bilateral, multilateral, private sector, Green Climate Fund, Foreign Direct Investment (FDI) and carbon markets. A mix of sources is possible. Unilateral NAMAs: domestic finance **Explicit SD and climate benefits can help inform investors to get the most benefits for their money**	Investors
Implementation	NAMA developer	Project owner/Coordinating Managing Entity (CME) for Programmes of Activities (PoAs)
Monitoring	Ditto **SD indicators to be monitored** along with other action & GHG metrics as specified in the BUR guidelines (see below)	Ditto
Reporting and Verification	International Consultation and Analysis (ICA) of Biennial Update Report (BUR) BURs include reporting on methodologies and assumptions, **SD objectives** and steps, progress, results, estimated GHG reductions and information about international market mechanisms. There are no requirements for MRV of individual NAMAs	Designated Operational Entity (DOE)
Issuance of CERs/units of GHG reductions	Possible links to NMMs and FVA for crediting of NAMAS **Units of GHG reductions to be *certified* for their SD co-benefits**	Executive Board (EB)/Registry

Certification of SD impacts under a FVA

- A certification approach to crediting of NAMAs would enable SD impacts to be internalized into the price of units of GHG reductions
- Certification of the SD impacts would add a social dimension to the concept of environmental integrity which otherwise focus only on ER
- Learning from CDM experience there is a need for an international standard to ensure that credits for offsetting also deliver sustainable development outcomes
- An international standard based on an integrated approach would define SD indicators, safeguards for no harm done and procedures for stakeholder involvement
- Monitoring, reporting and verification standards shall ensure that claims are realized and inform the market to price the SD benefits accordingly

Thank you!

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